

April 19, 2004

QUOTE OF THE WEEK

"I feel within me a peace above all earthly dignities, a still and quiet conscience."
William Shakespeare

UNDER THE DOME

****Workers' Comp "Reform"*****

I have learned two lessons from the countless workers' compensation reform negotiations I have participated in and witnessed over the years. First, the law of unintended consequences cannot be repealed. We really do not know and cannot anticipate accurately the long-term results of this latest round of reform resulting from Governor Schwarzenegger's push for legislation. The "reform" signed today will have impacts that themselves will need reforming in a few years. That said, the second thing I know is that you can try to estimate the consequences of the reform by looking at who is happy and who is upset at the proposals. Workers' comp, unlike most sports games with one winner and one loser, is a multi-ringed circus. In one ring are the businesses who pay the bills; in another ring is labor who get treatment for injuries and the comfort of knowing such treatment is available; in a third ring are the lawyers who represent a small number of injured workers but to whom are attributed a disproportionately large amount of the system's costs; in another ring are doctors and medical providers; and in yet another ring are insurance companies. The early responses to the reform package indicate that business and labor are more happy than not; lawyers and doctors are more unhappy than happy; and insurance companies are waiting for other shoe to drop on their heads. Watch each of these interest groups as they study the legislation and as they try to steer the intended and unintended consequences in their own direction.

*****CPR IV and Rumors*****

The fourth and final element of the Governor's California Review Plan (see <http://www.boe.ca.gov/leonard/blletters/blltrscont.htm> for the last three Leonard Letters discussing the first three CPR goals) is acquisition reform. Private industry and even some other government entities have done a much better job of understanding what is needed and in designing procurement processes to meet that need. California's process, on the other hand, not only often fails to secure what is needed, but it does so in a manner so complex and arcane that it is asking to be abused—and it has been. CPR plans to examine how we can improve, including using performance-based contracts, fee-based contracts, strategic sourcing and competitive sourcing.

I am excited about CPR and the possibilities for real change in how our government operates. I learned last week a little about the first CPR report, which is due out on April 27th. If I may borrow a Hollywood term, it is going to be a blockbuster announcement. I believe it will be the boldest attempt to reform the structure of government that I have ever seen. As the details are released and studied, I believe that citizens, taxpayers, voters, interest groups, and state employees will see the benefits of making government more commonsensical by combining like services and programs under the same structure. We can gain efficiencies and benefit from having one entity working on the same agenda, rather than having subjects split among numerous agencies. For example, environmental programs are scattered among several agencies and often compete against each other instead of working cooperatively toward the common goal; I understand the Governor's proposal will bring those together. I believe he will also be finding new efficiencies in education and job training programs. I have only heard snippets and rumors of the plan, and I understand others are receiving pre-briefings so that there will be plenty of people ready to comment and cheer when the first CPR report is delivered to the Little Hoover Commission on April 27th.

*****New Tax Proposed –Part 1*****

Even as the Governor works to make government more efficient there are far too many legislators who are working to raise taxes. With the costs of doing business in California at an all time high, State Senator Nell Soto thinks you should pay another new tax. Soto's Senate Bill 1537 seeks to raise the sales tax by one-quarter percent for two years, with the resulting revenue dedicated to firefighting and fire prevention measures. Next year's fire season is predicted to have greater potential for conflagration than 2003 and Soto argues that her tax is, therefore, necessary. However, she served on the Blue Ribbon Commission that studied the wildfires and should know that the best sorts of prevention for such fires do not require great expenditures of money but, rather, attention to precautionary details by individual property owners. That said, if Soto seriously wants firefighters to have more money to do battle, she should consider her position on state budget proposals that continue to take money from the local governments that fund fire departments and pay firefighters' salaries.

*****Tax Court Bill Not Well Received*****

Last Tuesday, the Tax Court bill, AB 2472, was heard in the Assembly Judiciary Committee. Even though the bill passed out of the committee 6-4, only one member expressed any real enthusiasm for the bill, and ironically, that member is a Republican. Three of the other members voting 'aye' expressed strong reservations about voting for the bill. Of these, all Democrats, two said they only voted for the bill to keep it alive as a possible blank slate (or "vehicle") for any proposed reforms of the Board that may be in the upcoming California Performance Review. Even though the bill is still alive, I am heartened and thankful for the pointed questions and the 90 minutes the committee spent digesting the bill in full -- an eternity by capitol standards. In particular, I commend the committee's chair, Assemblymember Corbett, for her fairness.

In the hearing, Assemblyman Darrell Steinberg (D-Sacramento) asked the bill's author what I think is the most relevant question of all -- where are the aggrieved taxpayers who are being harmed by the current system? Steinberg said, "Are they here today? Are they outside standing in the hall?" The three proponents -- Assemblymember Wolk, a tax lawyer, and a UC Davis professor -- all sat silently and dodged the question. I guess it never occurred to them that government exists to serve all its citizens, not just tax attorneys who would be the sole beneficiaries of a formal tax court. This is a perfect example of special-interest legislation that provides no benefit to the common good. As far as I can tell, the proponents never bothered to consult taxpayers. One of the Democrats on the committee said that the bill, "is definitely not cooked yet." I say it should not even be on the menu, raw or cooked.

TAX CORNER

*****Low Income Taxpayers Pay Less*****

This being a presidential election year the media is full of assertions about the impact of President Bush's tax cuts. According to a report recently released by the Treasury Department about 2001 tax revenues, the wealthiest five percent of Americans paid 53.3 percent of the total. Taxpayers in the bottom 50 percent income bracket saw their tax rate fall by 16 percent from the Bush tax cuts, while the top taxpayers saw a 12 percent cut in their rate. Moreover, Talon News reports that the nation's top 1% of taxpayers will see the percentage of tax bill increase from 30.5 percent of the total revenue collected to 32.2 percent with the Bush tax cuts in place. In short, they may pay less, but the top earners will bear a greater burden of all the taxes collected. If my colleagues on the other side of the aisle were consistent in their thinking, they would have to say that tax cuts for the rich are in order since now they are clearly paying more than their "fair share."

*****AMT Shock*****

As many Californians learned last week when filing their personal income taxes, the Alternative Minimum Tax (AMT) is beginning to hit more lower- and middle-income people. Speaking of the above-mentioned law of unintended consequences, the AMT was originally designed in 1970 to capture those high-income taxpayers who did not pay income taxes in the late 1960s. However, by disallowing many deductions and penalizing people who pay high state income and property taxes, the AMT is actually now hitting a different target. Kudos to San Francisco Chronicle columnist Kathleen Pender who wrote, "In 2001, I got the IRS to disclose that in 1998, Californians filed 11.3 percent of all tax returns. But they accounted for 19.3 percent of AMT returns and paid 22.7 percent of the nation's alternative minimum tax. Texans filed 7 percent of tax returns, but sent in 3.5 percent of AMT returns and paid 3.5 percent of total AMT. The IRS refused to provide additional or more recent data." More data needs to be forthcoming and federal policymakers need to rethink the AMT.

BOE AND LEGISLATIVE DATES

April 20, 2004 --- Victims Rights March on the Capitol in Sacramento

May 7, 2004 --- Last day for policy committees to hear and report non-fiscal bills

May 25-26, 2004 --- BoE meeting in Sacramento

May 28, 2004 --- Last day for Assembly to pass Assembly bills and for the Senate to pass Senate bills.

May 31, 2004 --- Memorial Day

June 15, 2004 --- Budget bill must be passed by midnight

June 15-17, 2004 --- BoE meeting in Culver City

NOTABLE DATES/ HISTORY

April 19, 1775 --- American Revolution began at Lexington Common with the shot "heard round the world"

April 19, 1852 --- California Historical Society formed

April 19, 1933 --- FDR announced that the U.S. would leave the gold standard

April 19, 1993 --- Branch Dividians/FBI 51-day standoff in Waco, TX ended with the deaths of four FBI agents and numerous deaths of the cult members

April 19, 1995 --- Truck bomb outside Alfred P. Murrah Federal Building in Oklahoma City, killed 168 & injured 500

April 20, 1971 --- U.S. Supreme Court upheld use of busing to achieve racial desegregation (*Swann v. Charlotte-Mecklenburg Board of Education*)

April 20, 1999 --- Thirteen are killed and more than 20 injured in the Columbine High School shootings in Littleton, CO

April 21, 1789 --- John Adams took oath of office as first U.S. Vice President (nine days before Washington)

April 22, 1970 --- First Earth Day held internationally to conserve natural resources

April 23, 1564 --- William Shakespeare was born in Stratford-on-Avon England

April 23, 1956 --- U.S. Supreme Court ended racial segregation on buses (*Gayle v. Browder*)

April 24, 1800 --- Library of Congress was established with \$5,000 allocation

April 25, 1898 --- The U.S. declared war on Spain, following the earlier sinking of the U.S.S. Maine in Havana harbor, beginning the Spanish-American War

April 25, 1805 --- Lewis and Clark reached the junction of the Missouri and Yellowstone Rivers

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office, call toll-free 1-888-324-2798.

HOW TO CONTACT ME

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